

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - INTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

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| Follow up Review of Information Security Corrective Actions (05/03/00) | Information Security Office | 10. A review of the COMET environment found a number of production files that could not be identified as to source or purpose. | IN PROGRESS. Information Security Office is waiting for a response from Technology Support Services, which has provided information earlier this year that indicated this issue has been resolved completely, pending Audit verification. |
| Review of the Member Home Loan Program (08/25/00) | Investment Office | 2. There is no independent verification of First Nationwide records and reports. The current contract neither requires First Nationwide to have its internal controls evaluated periodically, nor does it allow CalPERS to audit First Nationwide records. | IN PROGRESS. Management states a contract amendment which will satisfy the audit finding is currently in the CalPERS internal contract amendment review process. CitiMortgage has a number of issues with the proposed amendment. CalPERS Legal and Citi Legal are working to resolve the issues by February 2006. COMPLETE. Fiscal Services has completed written procedures for accruing interest on defaulted personal loans. |
| | Fiscal Services | 2.2 Fiscal Services should increase its oversight over State Street's recording to ensure that loan losses are adequately supported and interest income accrual is reasonable. | |
| Review of Internal Controls SAM 20060 (Financial Integrity and State Managers' Accountability) (7/31/01) | Fiscal Services | 3.3 Fiscal Services does not maintain an aging of accounts receivable in the benefit revolving fund. | COMPLETE. With the assistance from Information Technology Services, Fiscal Services has developed and used BRF Aging Report to achieve the aging of accounts receivable. |

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| Service Credit Buyback and Plan Transfer Review (7/31/02) | Member Services | 3.3 Member Services does not have a corrective action plan to recover an outstanding balance or reduce the member's service credit balance when an account is delinquent. | IN PROGRESS. Management states implementation of the EMBARC project, scheduled for July 2006, will address delinquent service credit purchase account collections. Legal guidance may be needed for certain accounts. Staff currently notify members regarding delinquencies but have no authority to collect and no collection procedures. |
| State Street Corporation Securities Accountability Review (8/19/02) | Investment Office | 3.3 The securities held should be reconciled to the inventory and accounting records periodically. | COMPLETE. To ensure that the securities held in the vault agreed with the physical and accounting records at State Street Bank, reconciliation is now in place between the vault, State Street Bank's Custody and State Street Bank's accounting records. |
| Review of Information Security (8/19/02) | Information Technology Services | 4.6 Hiring procedures do not require background checks for information security staff and other sensitive positions. | IN PROGRESS. Management states Information Security Office will submit another copy of the draft version of the Contractor Background Check Practice to the Legal Office by December 30, 2005. |
| Tele- communications Review (9/13/02) | Operations Support Services Fiscal Services | 2.1 Not all telecommunications equipment is included in the PeopleSoft Asset Management Module. 2.2 Fiscal Services should reconcile asset management records with the general ledger monthly. | COMPLETE. All telecommunications equipment is included and accounted for in the PeopleSoft Asset Management Module. IN PROGRESS. Management states the Asset Management records reconcile with the general ledger through June 30, 2005 and that the finding is complete, pending audit verification. |

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| Accounts Receivable Collection Review (9/16/02) | Fiscal Services/ Benefit Services | 5.1 Fiscal Services should work with Benefit Services to reconcile outstanding reimbursements of benefits paid directly from the Benefit Revolving Fund, and identify delinquent reimbursements for collection. In addition, inadequate segregation of duties exists. Fiscal Services should work with the mailroom to direct all reimbursement warrants to its Cashiering Unit. | IN PROGRESS. Management states Fiscal Services anticipates producing a newly created aging report by January 2006. It is anticipated Benefit Services will receive the report in March 2006 and that research of outstanding reimbursements can be completed by September 2006. |
| Review of the Judges and Legislators' Retirement Systems (01/21/03) | Member Services | 1.1 Member Services should update the written procedures for calculating various retirement benefits for both Judges' and Legislators' Retirement Systems. 3.1 Member Services should continue to work with Information Technology Services to develop technological resources to support the Judges Retirement System II. | IN PROGRESS. Management states of the ten key processes identified for procedures/policies update, the first eight have been completed. Of the two remaining processes, staff will submit information needed to update the procedures by March 31, 2006. IN PROGRESS. Management states Information Technology Services broke the original service request into phases. It is anticipated Phase 1, Roll Processing, will be completed in early 2006. |
| AB 592 Review (6/30/03) | Employer and Member Health Services | 1.1 The AB 592 training manual is outdated, and updates and changes to policies and procedures are not in writing. Health Benefit Services should update the manual to reflect changes. 1.2 Files kept did not always contain signed election documents, invoices, calculation worksheets or initial letters to members. Because the current system is manual, it is important to maintain complete documentation to support each case file. | IN PROGRESS. Management States sixteen procedures are in the process of being developed. The Procedures will be included in the Comprehensive Manual by August 2006. COMPLETE. We tested 15 files to ensure documentation was complete. Of those 15 files only 1 file was missing a document. We believe based on the procedures requiring complete documentation for the files and the testing that this finding is Complete. |

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| AB 592 Review (6/30/03) (continued) | Employer and Member Health Services | 1.3 The AB 592 unit performs member account reviews to identify and correct past discrepancies, but only as time permits. There are no methods in place for case reviews. | IN PROGRESS. Management states the Office of Employer and Member Health Services management staff will determine the amount of annual case files to be reviewed annually. A log will be developed and maintained to keep track of the files that have been audited by August 2006. |
| | | 1.4 Staff may not always receive necessary information to invoice members before deadlines, creating the need for manual adjustments to the reporting system. | COMPLETE. Based on the new process and review, this item is complete. |
| | Fiscal Services | 2.1 Fiscal Services cannot reconcile monthly deposits received to the Retirement Information and Benefit System, an important control to ensure accuracy. | IN PROGRESS. Management states Fiscal Services submitted a service request to Information Technology Services for changes to the annuitant premium account to aid reconciliation purposes. The work will require a major commitment of resources and the request must be identified as a priority work item for fiscal Year 2006-07. |
| | Employer and Member Health Services | 2.2 The process is costly, due to its manual nature. We recommend management explore the viability of reinstating an administrative fee to partially offset the cost of administering the program. | COMPLETE. Per the information presented by Employer and Member Health Services, there is satisfactory evidence to verify the cost of maintaining the complementary annuitant premium program is adequate. Since there are adequate funds for this program, it will not be necessary to explore the viability of reinstating an administrative fee. |
| | | 2.3 The current process does not allow for adequate identification and resolution of member accounts that have insufficient funds. | COMPLETE. Enhancements to COMET enable the Complementary Annuitant Payment Program Unit to identify and resolve accounts that have insufficient funds timely. |

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| AB 592 Review (6/30/03) <i>(continued)</i> | Employer and Member Health Services | 2.4 Members with insufficient funds are not immediately cancelled. | COMPLETE. Members with insufficient funds to pay their share of the monthly health benefit premium are given ample notice to replenish their account. Members who do not respond are cancelled timely in accordance to Section 22802 of the PERL. |
| Community Property Review (7/11/03) | Member Services | 1.1 Member Services should evaluate the possibility of establishing system checks to prevent instances where the separation of community property interests exceeds acceptable limits. | IN PROGRESS. Management states manual edit and audit steps currently in place will be better applied in an automated system. This process will be implemented with the new Pension System Replacement Project which is in the initial stages of development with an approximate completion date of 2009. |
| Review of Configuration Management (8/28/03) | Information Technology Services | 1.1 Information Technology Services should institute a quality review process to ensure divisions' Configuration Management plans meet Information Technology Services' requirements for such plans, and monitor projects for compliance. 4.1 An automated change control system would enhance the effectiveness of the change control process. | IN PROGRESS. Management states the Information Technology Services Branch is designing a Configuration Management Plan, will develop and implement a Configuration Management Project, and will educate and train Project Managers and Product Development Leads on Configuration Management practice and standard processes by February 28, 2006. IN PROGRESS. Management states the current production change-control process will be integrated into the Enterprise Release Management environment which is being developed. Automation will be introduced where feasible. A phased deployment of this strategy is anticipated to start in July 2006. |

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| Investment Accounting Reconciliation Process Review (10/27/03) | Fiscal Services | 3.2 Fiscal Services should establish procedures regarding write off of discrepancies to ensure consistency and prevent erroneous write-off by staff. | COMPLETE. The policy and procedures for Defaulted Securities have been evaluated and Fiscal Services appears to have established adequate procedures. |
| | | 3.3 Fiscal Services should follow up on discrepancies more timely. | IN PROGRESS. Management states the few outstanding issues will be cleared once the write off policy for defaulted securities is approved. The anticipated approval date is December 31, 2006. |
| Review of Internal Controls SAM 20060 (Financial Integrity and State Managers' Accountability) (12/22/03) | Information Security Office | 1.1 Information Security Office should ensure that an information technology risk analysis is performed at least once every two years, and adjust the risk management practices based on the results of this analysis. | IN PROGRESS. Management states Information Security Office is identifying CalPERS information technology assets, roles, responsibilities, best practices, and tools and techniques for risk management at CalPERS by December 30, 2005. |
| Review of Pre-Retirement Death Benefits (2/16/04) | Benefit Services | 5.1 Benefit Services management should ensure proper review of pre-retirement death benefit payments and work with Operations Support Services to ensure proper imaging of back-up documents. | IN PROGRESS. Management states it retained a technology expert to conduct workflow assessment and appointed a new project manager. An implementation schedule for the workflow process is being developed and workflow system changes should be in place by the third quarter of Fiscal Year 2005-06. |
| | Member Services | 1.3 Member Services should periodically review the listing of personnel with access rights to the system, and add or remove access rights accordingly. | COMPLETE. Member Services will continue to review the Benefit Equity System access list on a quarterly basis to ensure access rights are revoked when no longer needed. Written procedures will be followed and Benefit Equity System User Access Review Log will be updated to document actions taken during quarterly review. |

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| Review of the Benefit Equity System (2/18/04) | Member Services | 4.1 Member Services should ensure that prompt corrective action is taken on all elections. | IN PROGRESS. Management states the relevant report was redesigned eliminating and clearing prior resolved items. Member Services anticipates addressing remaining items with system reconciliation following the January 1, 2006 completion of Backbridge Decommission testing and validation. |
| Review of Health Care Cash Flow (5/7/04) | Employer and Member Health Services | <p>1.1 Employer and Member Health Services should revise contracts with Health Maintenance Organizations to include realistic payment due dates, or re-establish billing schedules to meet CalPERS' contractual payment due dates.</p> <p>1.2 Employer and Member Health Services should work with Enterprise Modeling and Management Division to enhance built-in system controls that ensure all employer accounts are updated and billed properly and completely.</p> <p>1.3 Employer and Member Health Services should work with Operations Support Services to ensure all invoices are generated and mailed.</p> | <p>COMPLETE. Management states the Health Benefits Branch has reviewed the audit observation and will assume the risk for the reported conditions. CalPERS consistently pays health premiums within the grace period with no late fee assessment. A late fee is assessed contracting agencies that make late payments providing incentive to forward health premium contributions on time.</p> <p>IN PROGRESS. Management states the service request submitted to ensure system generated invoices for all active contracts was suspended pending implementation of the Enterprise Management of Billings, Accounts Receivables, and Collections (EMBARC) Project, scheduled for June 2006.</p> <p>COMPLETE. Working with Operations Support Services, Employer and Member Health Services validates the number of invoices mailed comparing with the number of invoices generated by the Public Agency Billing system to ensure that all invoices are generated and mailed.</p> |

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| Review of Health Care Cash Flow (5/7/04) (continued) | Employer and Member Health Services | <p>1.4 Employer and Member Health Services should reconcile the billed amounts with the due amounts to ensure that it bills completely to collect all premiums due to health carriers.</p> <p>2.1 Employer and Member Health Services should fully implement its delinquency policy and procedures as soon as possible and work with Enterprise Modeling and Management Division to establish system functionality allowing assessment of penalties.</p> <p>2.2 Employer and Member Health Services should ensure that detailed written procedures be developed for monitoring outstanding receivables and collection.</p> <p>4.1 CalPERS' payments to health carriers are consistently made after contractual payment due dates. Employer and Member Health Services should revise the contracts to include realistic payment due dates, or re-establish billing schedules to meet the contractual payment due dates.</p> | <p>IN PROGRESS. Management states billed amounts will be manually reconciled with due amounts and that a service request to electronically gather the information was submitted. The request was suspended pending implementation of the Enterprise Management of Billings, Accounts Receivables, and Collections (EMBARC) Project, scheduled for June 2006.</p> <p>IN PROGRESS. Management states a service request was submitted to build the necessary functionality into the Public Agency Billing System. This request was suspended pending implementation of the Enterprise Management of Billings, Accounts Receivables, and Collections (EMBARC) Project, scheduled for June 2006.</p> <p>IN PROGRESS. Management states current delinquency control policies and procedures were approved by Senior Management and the Legal Office. Detailed procedures will be developed through the Enterprise Management of Billing, Accounts Receivable and collection (EMBARC) project scheduled for implementation June 2006.</p> <p>COMPLETE. Management states the Health Benefits Branch has reviewed the audit observation and will assume the risk for the reported conditions. CalPERS consistently pays health premiums within the grace period with no late fee assessment. A late fee is assessed contracting agencies that make late payments providing incentive to forward health premium contributions on time.</p> |

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| Review of Self-Funded Health Plan Administration (5/26/04) | Self-Funded Health Plans | <p>2.1 Self-Funded Health Plans should re-calculate the penalty assessments on the Performance Guarantee reports and monitor to validate the actual receipt of the penalty.</p> <p>2.2 Self-Funded Health Plans should ensure that reported recoveries are actually being credited to CalPERS' account balance.</p> <p>2.3 Self-Funded Health Plans should request the Third-Party Administrator provide sufficient information in Special Investigation reports that cover the resolution, control implications and recovery of monies.</p> <p>2.4 Self-Funded Health Plans should determine and formalize ranges of deviations which warrant further evaluation for utilization and claims data.</p> <p>2.5 Self-Funded Health Plans should request Employer and Member Health Services to provide more information on the appeals log that can be used to formally analyze the data for trends and timeliness.</p> | <p>COMPLETE. The Self-Funded Health Plan independently recalculates the penalty assessment on the Performance Guarantee Report provided by Blue Cross of California.</p> <p>IN PROGRESS. Management states the Self-Funded and Long Term Care Unit is working with the CalPERS Fiscal Services Division to ensure all credits are being posted to CalPERS' account balance. The anticipated completion date is December 2006.</p> <p>IN PROGRESS. Management states the Self Funded and Long Term Care Unit will meet with Blue Cross of California's Special Investigation Unit to discuss the addition of relevant CalPERS information to the Special Investigation report. A new monthly report format should be agreed upon and implemented in March 2006.</p> <p>IN PROGRESS. Management states the Self-Funded and Long Term Care Unit will develop trend reports and deviation standards. It is working with Office of Decision and Program Support Services staff to develop evaluation procedures for Blue Cross utilization and claims data and anticipates completion by May 2006.</p> <p>IN PROGRESS. Management states the Self-Funded and Long Term Care Unit staff is working with the Member Health Services Unit to develop an appeals report by March 30, 2006.</p> |

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| Review of Self-Funded Health Plan Administration (5/26/04) (continued) | Self-Funded Health Plans | 2.7 Self-Funded Health Plans should request that Employer and Member Health Services provide information on the premium reconciliations performed for this plan. | IN PROGRESS. Management states the Self Funded and Long Term Care Unit will work with Employer and Member Health Services and Blue Cross to improve the Premium Reconciliation Report. Proposed modifications, including newly developed procedures to expedite the review process, are targeted for completion March 2006. |
| | | 3.1 Self-Funded Health Plans should develop formal policies and procedures for administration of the self-funded health plans. | IN PROGRESS. Management states the Self-Funded and Long Term Care Unit has a Policies and Procedures Manual and anticipates updating the manual in April 2006. |
| | | 3.2 Self-Funded Health Plans should ensure that staff performs independent analyses of administrative billings and their supporting documentation. Staff should perform any follow-up work necessary to resolve questionable amounts. | IN PROGRESS. Management states the Self-Funded and Long Term Care Unit is developing a procedural outline for use when auditing the monthly Blue Cross administrative billing and is working to resolve issues regarding questionable amounts. The anticipated completion date is April 2006. |
| | | 3.3 Self-Funded Health Plans should conduct more frequent site visits of Third-Party Administrators to review their operations. | COMPLETE. The information provided by Self-Funded Health Plan staff was adequate to indicate site visits have been made to the Third Party Administrator. Sufficient information was provided to show there are regular visits being scheduled. |
| | | 4.1 Self-Funded Health Plans should request reports from Employer and Member Health Services on the results of enrollment reconciliations that impact its plan. | IN PROGRESS. Management states the Health Branch is working with Blue Cross on enrollment reconciliations. The anticipated completion date is April 2006. An exemption report will be created and run monthly to correct differences by April 2006. |

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| Employer Records Backfile Quality Monitoring (6/25/04) | Innovation Services | 3.1 The Project Management should ensure that the testing plan for critical risk areas of a project is performed to protect viability and promote fewer project delays. | IN PROGRESS. Management states Innovation Services is designing a Test Plan, Test Procedure and Test Report as a component of the Methodology Development effort. Project Managers, Product Development Leads and Testing Staff will be trained on the Test Process and users/testers will be trained to use the automated toolset. Completion is anticipated by July 2006. |
| Interagency Agreement with the State Controller's Office (8/4/04) | Self-Funded Health Plans | <p>1.1 Self-Funded Health Plans should ensure that the Interagency Agreement specifically states the types and frequency of reports needed to communicate the results of edits and audits performed.</p> <p>1.2 Self-Funded Health Plans should amend the Agreement to include the specific types of edits and audits expected to effectively identify both the fraudulent processing of claims and potential non-compliance issues. Self-Funded Health Plans' staff should conduct more frequent site visits to review the Controller's Office operations.</p> <p>1.3 Self-Funded Health Plans should evaluate alternatives to independently validate membership and accuracy prior to approving the claims for payment.</p> | <p>IN PROGRESS. Management states the Self Funded and Long Term Care Unit has been meeting monthly with the State Controller's Office to develop audit and edit reports. The Self Funded and Long Term Care Unit will amend the agreement with the State Controller's Office once reports are finalized by April 3, 2006.</p> <p>IN PROGRESS. Management states the Self-Funded and Long Term Care Unit has been meeting monthly with the State Controller's Office to develop audit and edit reports. The agreement with the State Controller's Office will be amended to include the audit and edit reports by April 3, 2006.</p> <p>IN PROGRESS. Management states the Self-Funded and Long Term Care Unit is in the process of recruiting to fill a Research Analyst position. One of the Research Analyst's duties will be to validate claim payments by August 3, 2006.</p> |

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| Interagency Agreement with the State Controller's Office (8/4/04) (continued) | Self-Funded Health Plans | 1.4 Self-Funded Health Plans should amend the Agreement to provide clarity on the purpose and types of edits, criteria for edits, and to establish performance measures to assess effectiveness of services provided. | IN PROGRESS. Management states the Self-Funded and Long Term Care Unit and the State Controller's Office have identified and modified edits and audits. The agreement with the State Controller's Office will be amended to include these changes by April 2006. |
| Review of Operational Recovery Planning (8/11/04) | Information Technology Services | 1.1 We recommend that CalPERS make efforts to align and coordinate the strategic objectives and functional activities of the Business Continuity process; including infrastructure, tool use and organizational placement. | IN PROGRESS. Management states Information Technology Services will complete a review of the National Fire Protection Association guidelines develop a strategy to better align and coordinate the strategic objectives and functional activities of the Business Continuity process by April 2006. |
| Health Insurance Portability and Accountability Act (8/12/04) | Employer and Member Health Services | 1.1 CalPERS should develop comprehensive policies and procedures to maintain and demonstrate compliance with requirements of HIPAA. 1.4 CalPERS should assign HIPAA related duties to a position that has enterprise wide responsibility and authority to ensure ongoing compliance with HIPAA requirements. | IN PROGRESS. Management states an electronic policies and procedure template was drafted. The web master, page master and All Staff Training staff will meet to facilitate the posting of the Health Insurance Portability and Accountability Act (HIPAA) Compliance Guide. The target completion date is March 2006. COMPLETE. The information provided by Employer and Member Health Services management adequately shows the duties of HIPAA related issues have been assigned to a Staff Services Manager position. The latest Health Benefit Branch Organizational Chart provides verification of that position. |

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| Health Insurance Portability and Accountability Act (8/12/04) (continued) | Employer and Member Health Services | <p>2.1 CalPERS should ensure that its training program specifically identifies staff that requires training, appropriate training to be provided, and ensure attendance at that training. Training documentation should demonstrate ongoing compliance with HIPAA requirements.</p> <p>4.1 CalPERS should develop a continuous and formalized system to identify, update and document personal health information and staff access to the information.</p> <p>5.1 CalPERS should critically review the Notice of Privacy Practices and revise them to ensure clarity. CalPERS should ensure that statements in the Notice are supported by policy and procedures, and should communicate how the revised Notice will be provided.</p> <p>5.2 CalPERS should formalize the current process of providing members with the Notice of Privacy Practices to increase assurance that members receive the Notice in accordance with HIPAA requirements.</p> | <p>IN PROGRESS. Management states required HIPAA training was confirmed and will be included in the Manager training series. The Training Plan will be posted on the e-Compliance Guide. Attendance is posted in PeopleSoft on an ongoing basis. The development of an on-line refresher training format will be coordinated with the Human Resources Services Division by March 2006.</p> <p>IN PROGRESS. Management states that identification of staff accessibility to personal health information is updated semi-annually and the process will be documented in the e-Compliance Guide. The target completion date is January 2006.</p> <p>IN PROGRESS. Management states the Notice of Privacy Practices was revised for the 2005 and 2006 plan years, will continue to be reviewed each year, and will be included in the comprehensive electronic policy and procedures demonstrating compliance with requirements of HIPAA targeted for completion in March 2006.</p> <p>COMPLETE. The annual mailing of the Member Health Statement provides enrolled members information about their health benefits. It also includes the Notice of Privacy Practices, which is in accordance with HIPAA requirements.</p> |

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| Health Insurance Portability and Accountability Act (8/12/04) <i>(continued)</i> | Employer and Member Health Services | <p>5.3 CalPERS should compile and integrate documentation that demonstrates compliance with HIPAA notice requirements.</p> <p>6.1 CalPERS should develop a summary guide of the implementation and development process.</p> | <p>COMPLETE. The disk which provides member addresses to the contractor who mails the annual Member Health Statements was written over for the 2005 benefit year. A copy of the 2006 benefit year mailing is filed in the HIPAA Coordinator's office. Additionally, this information is also accessible by a computer application only available to the HIPAA Coordinator and the Open Enrollment Coordinator.</p> <p>IN PROGRESS. Management states the Health Insurance Portability and Accountability Act (HIPPA) Coordinator is constructing a timeline of all actions, steps, and milestones. Completion is anticipated by March 2006.</p> |
| Software Management Review (8/12/04) | Information Technology Services | <p>1.1 Information Technology Services should ensure that staff complies with CalPERS' Information Security Practices by maintaining adequate documentation for software installed by CalPERS.</p> <p>1.2 Information Technology Services should ensure that the software inventory list is complete and current, based on its annual comprehensive inventory of all software installed on computer systems.</p> | <p>IN PROGRESS. Management states desktop teams within Enterprise Desktop Customer Support developed inventory and checkout lists of installed software. Written procedures were developed. Implementation is pending due to the move to the new building.</p> <p>IN PROGRESS. Management states Information Technology Services developed an Annual Comprehensive Inventory of Installed Software practice and procedures. A current inventory of all software on CalPERS' equipment will be compiled and submitted to the Department of Finance by January 2006.</p> |

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| Software Management Review (8/12/04) (continued) | Information Technology Services/ Operations Support Services | 1.3 Information Technology Services should conduct a quarterly inventory of software installed on CalPERS personal computers. | IN PROGRESS. Management states comprehensive software tables must be built in Radia in order to conduct the quarterly inventories. A Radia audit of software installed on CalPERS' personal computers is anticipated to be conducted by the third quarter of Fiscal Year 2005-06. |
| | Information Technology Services | 3.1 Operations Support Services, with the support of Information Technology Services, should establish complete records of purchased software, including detailed license and expiration information. | IN PROGRESS. Operations Support Services is taking four corrective steps with completion dates ranging from January 2006 to September 2006. Actions include designing a requirements design document for the Software Management Review modifications to PeopleSoft Asset Management Module. |
| | | 4.1 The Information Systems Architecture Committee should continue its efforts to make sure that only software approved for acquisition is included on Operations Support Services' WeBuy acquisition list. | IN PROGRESS. Management states Information Technology Services will investigate WeBuy items not approved by Enterprise Architecture Services. Management plans to implement a software inventory and requisition package to prevent any further discrepancies by December 30, 2006. |
| | Operations Support Services | 4.2 Information Technology Services should periodically compare software installed on CalPERS computer systems to software approved by the Information Systems Architecture Committee. | IN PROGRESS. Management states Information Technology Services will revamp the existing reconciliation process to conduct more accurate comparisons of approved software to licensed software on the desktop by December 30, 2006. |
| | | 5.1 Operations Support Services should establish a central repository for license information and agreements. | IN PROGRESS. Management states, in August 2005, the Operations Support Services established the Property Controller function as the central repository for software license information and agreements. At that time the first batch of documents from Information Technology Services was transferred. |

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| Software Management Review (8/12/04) (continued) | Information Technology Services | <p>5.2 Information Technology Services should explore the possibility of linking software installation records to software acquisition records to detect unlicensed software.</p> <p>6.1 Information Technology Services should establish written procedures and conduct periodic reviews to ensure that software is actually removed from recycled or salvaged computer storage devices.</p> | <p>IN PROGRESS. Technology Services and Support is holding meetings with Operations Support Services Division to identify a "primary key" that can be used to link the software installation data to the software acquisition data.</p> <p>IN PROGRESS. Management states Information Technology Services has developed practices and procedures for conducting periodic inspections of recycled or salvaged PCs to ensure that software has been removed. Quarterly inspections of recycled or salvaged personal computers will be started by December 2005.</p> |
| Review of Actuarial and Employer Services and Benefit Services Communication with Public Agencies and Members (11/5/04) | Actuarial and Employer Services | <p>1.1 All SmartDesk inquiries and corresponding responses should be logged and completed by all Actuarial and Employer Services staff so that information provided can be tracked and monitored for consistency.</p> <p>1.2 A detailed review of the Employer Contact Center's processes and measures should be initiated to provide consistent, accurate and complete information to public agencies and members.</p> | <p>IN PROGRESS. SmartDesk training, including appropriate procedures for documenting incoming inquiries and responses in SmartDesk, was developed and provided to all Employer Services staff. Managers and Supervisors were also trained on SmartDesk reports to validate consistency of information. Plan implemented June 2005, pending audit verification.</p> <p>IN PROGRESS. The Employer Contact Center has developed baseline metrics which are used to track and evaluate the efficiency and effectiveness of the unit. Bi-weekly department meetings have been established to make sure agent responses to customer are accurate, consistent, and complete. Plan implemented December 1, 2005, pending audit verification.</p> |

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| Review of Actuarial and Employer Services and Benefit Services Communication with Public Agencies and Members (11/5/04) (continued) | Actuarial and Employer Services | 3. For unclear issues, Actuarial and Employer Services should seek clarification through the regulation process, which can be shared with other divisions, rather than through client/attorney privileged legal opinions. CalPERS should establish processes to initiate regulations in order to communicate information. | IN PROGRESS. Employer Services is identifying those issues which need clarification through the regulation process. The appropriate regulations or changes to legislation are proposed with the assistance of the legal and legislative office. Employer Services will establish processes to initiate regulations by June 2006. |
| | Benefit Services | 4. CalPERS should establish processes to initiate regulations to effectively and promptly communicate the resolution of unclear membership and compensation issues to all similarly situated public agencies. | IN PROGRESS. Benefit Services has and will issue circular letters that undergo the process to determine whether regulations should be promulgated. |
| COMET Backbridge-Refresh Process Review (11/29/04) | Benefit Services/ Member Services | 2.3 Most data validation errors were not timely investigated and resolved. Benefit Services and Member Services should enhance management oversight to ensure prompt error correction. | IN PROGRESS. Technology Services and Support Division is in the process of decommissioning the backbridge refresh process, therefore making this issue obsolete. The Backbridge Decommissioning Project is expected to be completed by no later than December 2005. |
| | Information Technology Services | 5. 1 Information Technology Services should continue its efforts to improve the controls over change documentation. | IN PROGRESS. Technology Services and Support Division is in the process of decommissioning the backbridge refresh process, therefore making this issue obsolete. The Backbridge Decommissioning Project is expected to be completed by no later than December 2005. |
| Review of Social Security Administration (12/2/04) | Actuarial and Employer Services | 1.2 Actuarial and Employer Services should require periodic secondary reviews of outgoing correspondence to ensure the information given to other agencies is accurate and consistent. | IN PROGRESS. Peer review of the outgoing coverage documents was implemented January 1, 2005. Employer Services has incorporated accuracy of outgoing correspondence into our ongoing employee performance procedure. Management states plan will be implemented June 2006. |

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| Review of Social Security Administration (12/2/04) (continued) | Actuarial and Employer Services | 2.1 Actuarial and Employer Services should periodically re-evaluate its labor cost estimates to ensure they reflect the current costs associated with administering their program. | IN PROGRESS. Employer Services will re-evaluate the labor cost estimates expenses and will decide whether to continue tracking actual costs, or if cost estimates should be used. If cost estimates are used, they will be periodically reevaluated at least every three fiscal years. Management states plan will be implemented July 2006. |
| Data Ownership (12/21/04) | Information Security Office | <p>1.1 Information Security Office should follow up with management to ensure that each data asset has a data owner.</p> <p>1.2 Information Security Office should work with Information Technology Services to develop a complete listing of all CalPERS' data assets and follow up with business management to have ownership assigned for all data assets.</p> <p>2.1 Information Security Office should work with Information Technology Services' Data Administration Unit to establish detailed guidelines and procedures for delineating data ownership of shared corporate data, and review the ownership assignments for compliance with security practice requirements.</p> | <p>IN PROGRESS. Management states the Data Classification Practice, Data Owners and Custodians Practice, and the Data Owner Designation Form have been approved and the Data Classification Power Point training presentations and a Data Classification inventory Worksheet have been submitted for posting to the insider. To be completed by June 30, 2006.</p> <p>IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before working with staff from Information Technology Services to develop a complete listing of all CalPERS' data assets. Management states finding is complete, pending audit verification.</p> <p>IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before working with staff from the Information Technology Services Branch to establish detailed guidelines and procedures. Management states finding is complete, pending audit verification.</p> |

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| Data Ownership (12/21/04) (continued) | Information Security Office | <p>2.2 Information Security Office should revise the security practice to require timely notification of ownership changes by management and establish procedures for the updates.</p> <p>3.1 Information Security Office should review the completed data classification forms for accuracy and completeness.</p> <p>3.2 Information Security Office should revise the data classification practice to include the requirement for periodic review of data classifications. Data classifications should be determined based on the business need for data protection, and the business impact of unprotected data.</p> <p>4.1 Information Security Office should include a field in the data owner designation form for identifying the data custodian, and establish security baselines for each class of data.</p> | <p>IN PROGRESS. The Information Security Office is currently in the process of updating the Data Owner and Custodian Practice, as well as in the process of establishing procedures for the updates. Management states finding is complete, pending audit verification.</p> <p>IN PROGRESS. The Information Security Office will be reviewing the next set of classification forms for accuracy and completeness. The next set of forms will not be requested from the various divisions until the Data Owner and Custodian Practice, the Data Classification Practice, and the Data Owner Designation form have all been updated. Management states finding is complete, pending audit verification.</p> <p>IN PROGRESS. The Information Security Office is in the process of updating the Data Classification Practice. Management states finding is complete, pending audit verification.</p> <p>IN PROGRESS. The Information Security Office is currently in the process of updating the Data Owner and Custodians Practice, the Data Classification Practice, and the Data Owner Designation form. Management states finding is complete, pending audit verification.</p> |

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| Data Ownership (12/21/04) (continued) | Information Security Office | 5.1 Information Security Office should keep data owners aware of their responsibilities through training or other awareness campaigns. | IN PROGRESS. The Information Security Office is waiting until the Data Owner and Classification Practice has been updated, and the Enterprise-wide Decentralized Access Review's report has been issued, before providing training or other awareness campaigns. Management states finding is complete, pending audit verification. |
| Self Funded Health Plans Cash Flow (1/11/05) | Office of Health Policy and Plan Administration | 2.1 The Office of Health Policy and Plan Administration should establish cash budgets for the self-funded health plans. They should perform periodic cash variance analysis. | IN PROGRESS. The Office of Health Policy and Plan Administration will develop staff expertise in this area. Cash flow for self funded plans will be tracked and monitored. A workgroup has been developed to address this issue. |
| | Office of Health Policy and Plan Administration / Fiscal Services | 3.1 The Office of Health Policy and Plan Administration should develop cash management policies, and communicate them to Fiscal Services and the Investment Office to ensure proper coordination and support in achieving the program objectives. | IN PROGRESS. Office of Health Policy and Plan Administration will develop cash management policies designed to achieve strong financial performance for the self-funded health plans. Fiscal Services will review the new cash management policies. |
| | Office of Health Policy and Plan Administration/ Investment Office | 4.1 Office of Health Policy and Plan Administration management should work with Investment Office to determine whether the current approved Investment Policy supports the program objectives. Any determination to use a different benchmark should be formally adopted as such. Any other policy changes should also be formally approved. | IN PROGRESS. Office of Health Policy and Plan Administration will review and update the Statement of Investment Policy for the Self-Funded Health Care Fund. Once updated, the Office and the Investment Office will ensure the policies are formally approved. The Investment Office will propose a formal revision of the Self-Funded Health Care Fund's policy to the Investment Committee. |
| | Office of Health Policy and Plan Administration / Fiscal Services | 6.1 Office of Health Policy and Plan Administration should work with Fiscal Services to have each self funded health program product separately identified and accounted for within the Health Care Fund, so they can conduct effective cash flow planning, management, monitoring and control. | IN PROGRESS. Office of Health Policy and Plan Administration will research the feasibility of breaking out financial information by product. Fiscal Services will review for reasonableness Office of Health Policy and Plan Administration's methodology for identifying the separate program products. |

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| Self Funded Health Plans Cash Flow (1/11/05) (continued) | Office of Health Policy and Plan Administration/ Investment Office | 6.2 Office of Health Policy and Plan Administration should review the current investment policy to determine whether it adequately addresses program needs and objectives. Any changes to the policy must be coordinated with the Investment Office for presentation to the Board. | IN PROGRESS. Office of Health Policy and Plan Administration will review the current investment policy to determine whether it adequately addresses program needs and objectives. The Investment Office will propose a formal revision of the Self Funded Health Care Fund Policy to the Investment Committee subsequent to support their program objectives. |
| Actuarial and Employer Services and Benefit Services Processes for Establishing Policies (2/15/05) | Actuarial and Employer Services | 1.1 Case specific legal advice should not be used to set policy for all public agencies. Actuarial and Employer Services should establish processes to initiate regulations clarifying areas of the law, which are unclear or subject to interpretation, and communicate this information to all public agencies. 1.2 Actuarial and Employer Services should identify unclear areas of the law and pursue efforts to clarify the law and revise the CalPERS' Procedure Manual to ensure consistency with the Government Code. | CONCUR. Actuarial and Employer Services will establish a policy to review all legal advice and if regulations should be promulgated, the process for notifying employers will be identified. Actuarial and Employer Services will also establish a policy to review unclear areas of the law and develop procedures to clarify the law. CONCUR. Actuarial and Employer Services will establish a policy to review unclear areas of the law and develop procedures to clarify the law. Once clarified, procedures will be developed to communicate the information to all affected employers. Once resolved, consistency on the issue will be reflected in the CalPERS' Procedure Manual. |
| | Benefit Services/ Actuarial and Employer Services | 2.1 Benefit Services should use legal advice to compose or amend regulations to clarify the definition of a "day" referred to in California Government Code 20965 and should ensure the CalPERS' Procedure Manual is in accordance with the California Government Code. | CONCUR. Actuarial and Employer Services is willing to work with Benefit Services to ensure the CalPERS' Procedure Manual is in accordance with the California Government Code. Benefit Services believes that Circular Letter 450-067 remains the official CalPERS documentation of Benefit Services' position. |

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| Actuarial and Employer Services and Benefit Services Processes for Establishing Policies (2/15/05) (continued) | Benefit Services | 2.2 Benefit Services should work with Actuarial and Employer Services to identify a solution to resolve those instances where the Golden Handshake provisions are not complied with. | CONCUR. Actuarial and Employer Services is willing to work with Benefit Services to identify a resolution. It would appear an employer's failure to comply with the staffing reduction provisions of the Golden Handshake sections is more accurately viewed as a violation of the contract. |
| | Actuarial and Employer Services | 3.3 To have effective internal communication, Actuarial and Employer Services should seek clarification of issues through the regulation process, which can be shared with other divisions, rather than through client/attorney privileged legal advice. | CONCUR. Actuarial and Employer Services will develop a policy to notify other CalPERS divisions to communicate regulations that will be promulgated. Every effort will be made to pursue regulations rather than client/attorney privileged legal advice. |
| | | 3.2 Actuarial and Employer Services should establish a process so that the Office of Audit Services is made aware of any different policies that affect the audit reports. The Office of Audit Services could then work with Actuarial and Employer Services to resolve the issues. | CONCUR. Actuarial and Employer Services will develop a policy to schedule meetings with the Office of Audit Services when their opinions on audit findings differ from those made by Audit Services' staff. |
| Reconciliation of Investment Accounts (3/29/05) | Fiscal Services | <p>1.1 The Investment Accounting Unit should continue to develop a standard, repeatable methodology for efficiently transferring accounting data and validating all investment activity received from State Street.</p> <p>2.1 Investment Accounting Unit should redesign the reconciliation of State Street's accounting records to CalPERS' records, which currently does not provide assurance that all assets, liabilities and capital accounts are recorded accurately in the aggregate.</p> | <p>IN PROGRESS. Fiscal Services will continue to evaluate revising the accounting data transfer and validation process. Fiscal Services estimates the evaluation will be completed by the end of fiscal year 2005-06.</p> <p>IN PROGRESS. The task force assigned to the project is currently working on revising the design of the current reconciliation to incorporate the inclusion of total assets, total liabilities and total capital of all portfolios. Fiscal Services estimates this will be completed by December 2005.</p> |

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| Reconciliation of Investment Accounts (3/29/05) (continued) | Fiscal Services | <p>3.1 To ensure strong internal controls over financial reporting, financial statements should be directly generated from, and supported by, the PeopleSoft general ledger system. All reclassification entries should be approved by a supervisor and posted to the general ledger prior to the production of the financial statements.</p> <p>4.1 We recommend that Fiscal Services proceed expeditiously towards including all internally and externally managed fixed income and equity portfolios in the Investment Accounting System.</p> <p>5.1 We recommend that Investment Accounting Unit document its objectives and conceptual framework, and more fully document its processes and procedures for transferring, recording, reconciling and reporting for all CalPERS investment activity.</p> | <p>IN PROGRESS. Fiscal Services has taken steps to implement policies that will improve the financial preparation process. Adjustments or reclassifications will be reviewed for support and approved by a supervisor prior to posting to the general ledger. Fiscal Services anticipates having the requirements and system development plans by June 2006.</p> <p>IN PROGRESS. Fiscal Services has added portfolios in the Investment Accounting System per the schedule submitted to senior management. Additional staff resources are needed to move forward with the production schedule. Fiscal Services also intends to request more resources if necessary to achieve the goals of this effort.</p> <p>IN PROGRESS. Fiscal Services will undertake the task of improving the process documentation currently in place to include high-level objectives and conceptual guidelines after a new Section Manager is hired.</p> |
| Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05) | Investment Office | <p>1.1 We recommend improved internal controls over the program change process to reduce the chance of inadvertent deletion or erroneous changes of software code. Additionally, we suggest that someone independent of the Investment Office maintain the restricted list securities in the Charles River Compliance System.</p> | <p>CONCUR. The two actions recommended, software change controls and non-investment office maintenance of the restricted list, will mitigate the potential for non-compliant trades. In addition to these steps, the Investment Office will require all trade lists be routed through the Charles River order management system.</p> |

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| Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05) (continued) | Investment Office | 1.2 We recommend the Investment Office establish a standard, documented method of reviewing and identifying American Depository Receipts in this and related portfolios, to enhance its ability to comply with policy. | CONCUR. The Investment Office will create a structure and documented method to allow the identification and consistent categorization of American Depository Receipt's in the Charles River system. Each portfolio will be screened through the Charles River compliance test module on at least a monthly basis. |
| | | 1.3 We suggest that the Carolina Group from the Investor Responsibility Research Center tobacco list be added to the prohibited tobacco list in Charles River per policy, and that this list be periodically reviewed and updated to ensure that it is consistent with the list so that no inadvertent trading in prohibited tobacco stocks can occur. | CONCUR. The identified omission from the tobacco listing (Carolina Group) has been added to the Charles River system listing. The maintenance and updating of the tobacco list will move to the CalPERS compliance function under the Investment Office proposal shown in Attachment 1 of the audit report. |
| | | 2.1 We recommend the current portfolio monitoring processes be documented in a formal portfolio monitoring plan for this portfolio and for each of the other internally managed portfolios. | CONCUR. A more structured, documented process has been proposed and will be implemented as in Attachment 2 of the audit report. This process will be used with all internally managed portfolios. |
| | | 2.2 We recommend providing physical security, such as a locked cabinet, for the workstations with the program in the office space. We also recommend that the systems be protected from data loss or destruction, and that formal backup and recovery plans be developed and implemented that include applications, data and secure offsite redundancy. | CONCUR. CalPERS' Investment Office is working with the Information Technology Services Branch to upgrade the systems platform used to manage the strategy. Other aspects being examined are locating some of the systems capability within the controlled trade room environment and providing for uninterruptible power supply. |

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| Review of Internal Controls over Domestic Enhanced Index Strategy (5/19/05) (continued) | Investment Office | 2.3 We recommend that the Investment Office implement appropriate standard change control practices over the computer software, including version control, testing and documentation. | CONCUR. The Information Technology Services Branch will determine the ability of the organization's current change control utility to provide this functionality to the programming used for the Domestic Enhanced Index portfolio. |
| System Backup and Archival Process Review (5/23/05) | Technology Services and Support | <p>1.1 Data Center management should instruct staff to maintain adequate documentation showing proper authorization of change requests.</p> <p>1.2 Data Center should prohibit the use of shared Identifications, or obtain the approval by the Data Owner and the Information Security Office, as required by CalPERS' Information Security Practice.</p> <p>1.3 Data Center management should periodically review error logs to ensure that backup problems are timely resolved, missed or failed jobs are rerun successfully, and that an adequate audit trail is maintained.</p> | <p>CONCUR. Data Center has practices, processes and procedures that ensure adequate documentation and/or authorization are in place. Data Center will request from the Office of Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures.</p> <p>CONCUR. Data Center has practices, processes and procedures that prohibit shared Identifications. Data Center will request from Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures.</p> <p>CONCUR. Data Center has processes and procedures that guide staff to properly and timely resolve and rerun missed and failed backup jobs. Data Center management concurs that improvement and additional audit procedures should be in place to eliminate incidents such as those four findings identified by Audit Services in this audit.</p> |

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| System Backup and Archival Process Review (5/23/05) (continued) | Technology Services and Support | <p>1.4 Data Center should ensure that all systems required to be backed up are actually backed up.</p> <p>1.5 Data Center management should assign someone other than the person performing the backup activities to verify the completeness of the backups, fully account for the media used to store CalPERS' critical system information, and maintain a log for audit trail purposes.</p> <p>2.1 Data Center management should remind staff to label the ID number on the exterior of all platters currently in use.</p> <p>2.2 Data Center management should require staff to perform periodic inventories of media against the inventory lists and investigate the discrepancies. Missing media contents should be identified and reported to the Information Security Office when involving confidential information.</p> <p>2.3 Platters containing imaged member files should have been transported offsite for storage but were not. Data Center management should remind staff that backup data for offsite storage should be transported offsite timely to ensure data availability for recovery in case of a disaster occurring at the headquarters.</p> <p>3.1 Data Center management should review the results of annual offsite inspection and ensure that staff takes appropriate steps to resolve discrepancies.</p> | <p>CONCUR. Data Center will improve and/or place additional processes and procedures to ensure all telecommunication systems with backup requirements are properly backed up.</p> <p>CONCUR. Data Center has process and procedures that guide staff to properly perform the "backup" of the Unix operation systems. Data Center management concurs that improvement and additional audit procedures should be in place to eliminate incidents such as those identified by the Office of Audit Services in this audit.</p> <p>CONCUR. Data Center management will implement additional processes and procedures to ensure that platters are properly labeled.</p> <p>CONCUR. Data Center management will implement additional processes and procedures needed in auditing the inventory and in reporting missing media.</p> <p>CONCUR. The responsible unit relating to this process has moved out of the Data Center Section and into the Application Infrastructure Support Section. The Application Infrastructure Support Section concurs with the recommendation and will implement additional processes and procedures.</p> <p>CONCUR. Data Center management will review the results of annual offsite inspection and ensure that staff takes the appropriate steps to resolve discrepancies.</p> |

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| System Backup and Archival Process Review (5/23/05) (continued) | Technology Services and Support | 3.2 Data Center should revise the statement of work to include security requirements for media during transportation, such as bonded couriers and tamper-resistant packaging. | CONCUR. Data Center will revise the statement of work to include security requirements for media during transportation, such as bonded couriers and tamper-resistant packaging. |
| | Operations Support Services | 3.3 Operations Support Services should work with the building manager to ensure that authorization is properly verified prior to granting access and that access is deleted timely. | CONCUR. Operations Support Services management will work with the building manager and the Information Technology Services Branch to refine the procedures to ensure that authorization to the computer room is properly controlled and maintained. |
| | Technology Services and Support | 3.4 Data Center should continuously monitor physical access to computer rooms to ensure that access is restricted only to staff or contractors with a demonstrated need. | CONCUR. Data Center will work with Operations Support Services, building management, and/or other Information Technology Services Branch units to ensure timely revocation of computer room access of those individuals whose access is no longer needed. |
| | | 3.5 Data Center management should remind staff of the prohibition of leaving trash throughout the computer room. | CONCUR. With the R Street Data Center Relocation Project, the Data Center will have better opportunities to ensure that combustible materials are stored at a safer distance from critical data storage media. |
| | | 4.1 Data Center management should review the results of the restoration test performed on archived media annually to ensure that the integrity and availability of backup data are maintained. | CONCUR. Data Center will develop processes and procedures to audit restoration for ensuring integrity and availability of backup data. |
| | | 5.1 Data Center should restrict the access to electronic media at all times. | CONCUR. Data Center will request from the Office of Audit Services the specific incidents identified in the sampling, review the identified incidents, and implement appropriate improvements to existing processes and procedures. |

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| System Backup and Archival Process Review (5/23/05) (continued) | Technology Services and Support | <p>5.2 Data Center management should ensure access to the storage bin keys is restricted to authorized staff.</p> <p>5.3 Data Center management should eliminate the 30 day grace period for returning the CalPERS electronic media containing backup data from the offsite facility. All electronic media should be strictly controlled to ensure protection over confidential or sensitive information.</p> <p>5.4 Data Center should revise its procedures to specify proper disposal of all types of electronic media, ensuring that information is completely removed or that the media is destroyed in such a way that the information is no longer retrievable.</p> | <p>CONCUR. Data Center will explore alternatives and implement appropriate mechanisms or procedures to ensure access to storage bin keys is restricted and/or tracked.</p> <p>CONCUR. Data Center will work with our contractor and address the 30-day grace period for returning CalPERS electronic media containing backup data. We will explore, with our contractor, opportunities in eliminating the 30 day grace period.</p> <p>CONCUR. Data Center management will revise its procedures to specify proper disposal of all types of electronic media, ensuring that information is completely removed or that the media is destroyed in such a way that the information is no longer retrievable.</p> |
| Review of Additional Retirement Service Credit (4/21/05) | Member Services | 1.1 Member Services should remind its staff to be conscientious about the importance of accurate data entry, and in order to reduce the error rate, have a second staff member validate the accuracy of data inputs. They should also correct the billing errors discovered in this audit. | CONCUR. Member Services will emphasize this in training, procedures, quality assurance and periodic reviews of accounts. |
| Review of Internal Controls Over Performance Compensation (6/13/05) | Human Resources/ Investment Office | 1.1 Key documents, such as plan developments, plan changes, status reports, and year-end worksheets, did not include original signatures or the signatures were typed only with the approving officer's name. Human Resources and the Investment Office should obtain actual signatures of those required to substantiate that a review has been completed. | CONCUR. Human Resources will implement recommendation during 2005-06 fiscal year. Investment Office will supply all required original signatures to Human Resources. |

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| Review of Internal Controls Over Performance Compensation (6/13/05) (continued) | Human Resources | 2.1 The worksheets sent to the consultant contain personal identifying information, such as the name of the individual and salary amount. Human Resources should send the consultant only the minimum amount of information needed to complete performance calculations. | CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year. |
| | Human Resources | 2.2 To strengthen independence and transparency in the calculation process, the names of the individuals should not be included on the worksheets sent to the consultant. Human Resources should de-identify the information provided to the consultant, such as by assigning a unique identifier code or number. | CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year. |
| | Human Resources/ Investment Office | 2.3 Human Resources should work with staff independent of investment management staff eligible to receive the performance awards to answer questions from the consultant. | CONCUR. Human Resources will work directly with the Assistant Executive Officer, Investment Operations, to resolve any questions from the consultant. The Investment Office's Assistant Executive Officer will receive and respond to questions from the consultant. |
| | Investment Office | 2.4 Investment Office should prepare quantitative measures that are more specific to identify specific fund codes/subcodes, weighting factors for multiple components, time measurements when data history is not available, and consistency for incentive schedules. | CONCUR. Investment Office will collaborate with Human Resources to prepare a proposal to reformat the plans that will display the proper elements. |
| | Human Resources | 2.5 Human Resources should consider revising the format of the plans to ensure required elements are identified for an independent party to calculate performance measurements. Also, quantitative measures should be more specific. | CONCUR. Human Resources will explore the feasibility of revising the plan format to display required information. This effort will be undertaken during the 2005-06 fiscal year and will involve collaboration with the investment consultant and Investment Office staff to determine required elements and how they can be included in the performance plan format. |

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| Review of Internal Controls Over Performance Compensation (6/13/05) (continued) | Human Resources | 2.6 Human Resources should request the consultant to provide the results of their performance calculations in a portable document format (PDF) file or in writing approved by the consultant. | CONCUR. Human Resources will implement recommendation during the 2005-06 fiscal year. |
| Unclaimed Benefits (6/23/05) | Benefit Services | 1. Benefit Services should require periodic secondary reviews by another staff member to verify the validity and appropriateness of the release of unclaimed benefits. In addition, Benefit Services should re-assess the threshold amount and the manner that should be used to determine if an independent review is necessary before releasing the benefit payment. | CONCUR. Benefit Services will start conducting secondary reviews prior to the release of unclaimed benefits in all cases, regardless of the dollar amount. |
| | | 2. Benefit Services should provide specific direction to staff for documenting search and locate efforts to ensure consistency in its oversight responsibilities. | CONCUR. Benefit Services staff will document their search and location efforts in the system for future retrieval via either the "Summary of Events" form, or Customer Touch Point notes in SmartDesk. |
| | Benefit Services/ Fiscal Services | 3. Fiscal Services should work with Benefit Services to research, resolve, and document the justification for the unresolved transfers out of the unclaimed benefit reserve account and maintain sufficient documentation for all future transfers. | CONCUR. Benefit Services and Fiscal Services will work to investigate the 23 remaining items where justification for the transfers could not be located during the audit, and will maintain sufficient documentation on all current transfers from the unclaimed accounts. |

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - INTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

| Audit Activity (Report Issue Date) | Responsibility | Description of Risk / Finding | Status/Comments |
|--|-----------------------------|---|--|
| Review of Consultant Contracts for the Alternative Investment Management Program (6/30/05) | Investment Office | 1.1 The Investment Office should maintain documentation to support efforts to comply with Operations Support Services' contract requirements for the administration of the Spring-Fed Pool and to ensure compliance and consistency when conducting the request for proposal process. | CONCUR. The Investment Office's AIM Unit will coordinate with the Administrative Services Unit to document the evaluations and scoring of proposals received in response to the Request for Proposals. |
| | | 1.2 The Investment Office should consider including an independent observer or reviewer from outside the AIM Unit to enhance objectivity and ensure adherence to the process for scoring and evaluating the proposals submitted for the Spring-Fed Pool. | CONCUR. The Spring-Fed Pool evaluation team will include a member of the Administrative Services Unit. |
| | | 1.3 The Investment Office should update its procedures for the maintenance of the Spring-Fed Pool to reflect current practices and to include the emerging role of the Administrative Services Unit. | CONCUR. The Investment Office will update its procedures manual to include the role of the Administrative Services Unit in the Request for Proposals and contract process. |
| | | 1.4 The Investment Office did not always maintain consistent language when awarding and identifying service contracts. | CONCUR. The Investment Office will use the same language as in the request for proposal when awarding the contracts. |
| | Operations Support Services | 2.1 Spring-Fed Pool procedures did not include a stated period of time after which, if a pool member is not selected to perform services, they may be removed from the pool, as required by the board resolution. | CONCUR. Operations Support Services revised its Spring-Fed Pool procedures to include the stated period of time, as required. |

**AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - INTERNAL AUDITS
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AS OF DECEMBER 31, 2005**

| Audit Activity (Report Issue Date) | Responsibility | Description of Risk / Finding | Status/Comments |
|---|-----------------------------|---|--|
| Review of Consultant Contracts for the Alternative Investment Management Program (6/30/05) (continued) | Investment Office | 2.2 The Investment Office should ensure that all Letters of Engagement contain a date, signatory and identification of personnel responsible for the engagement. | CONCUR. The Investment Office will include a date, signatory and identification of personnel responsible in the Letter of Engagement. It will comply with processes established by Operations Support Services, who has responsibility for enterprise contracting practices. Investment Office staff have been informed of the above requirements. |
| | | 2.3 The Investment Office should ensure that Letters of Engagement contain provisions and fee schedules based on payments for actual services rendered. Invoices should be inspected for adherence to the deliverables contained in the Letters of Engagement. In no circumstances should payments be made in advance of services rendered. | CONCUR. Each contract states that payments are made after services are performed per standard language. Contracts supersede all other agreements (i.e. Request for Proposal and Letter of Engagement). Thus the contract takes precedence. Progress payments will be made if deliverables identified in the engagement letter have been received. |
| | Operations Support Services | 2.4 CalPERS should develop its own standard Letter of Engagement format or at minimum a checklist of items to be included in all Letters of Engagement. These should be added to the CalPERS External Resource Spring-Fed Pool Procedures. | CONCUR. Operations Support Services will work to develop a checklist that would include key contractual elements for Program staff to use as a guide in developing/issuing Letters of Engagement. |
| | | 2.5 Operations Support Services and the Investment Office should ensure the appropriate signature level is obtained for all master contracts in the Spring-Fed Pool, since any contract in the Spring-Fed Pool has a potential multi-million dollar value. | CONCUR. Operations Support Services will work with Program staff to obtain an estimated value for the pool contracts to determine the appropriate signature level. In those instances where an estimated value is not available, Operations Support Services will route the contracts to the Executive Office for signature. |